



Department of Energy

Washington, DC 20585

April 26, 2003

MEMORANDUM FOR THE SECRETARY

FROM: Kyle McSarrow
Deputy Secretary

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Linton F. Brooks
Acting Administrator
National Nuclear Security Administration

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SUBJECT: Los Alamos National Laboratory

On December 24, 2002, you concluded that events at Los Alamos National Laboratory reflected a "systemic management failure." Although this conclusion was primarily aimed at the management at Los Alamos itself, you also directed us to conduct an examination of the relationship between the University of California, as the responsible contractor, and the Los Alamos National Laboratory. We have also explored the relationship among the University of California, Los Alamos, and the National Nuclear Security Administration, Department of Energy.

The University and the National Nuclear Security Administration share responsibility for allowing these problems to develop. Prior to November 2002, the University's supervision of Los Alamos was ineffective in the area of business processes. The Federal oversight role was limited to a mechanistic review of performance as set forth in the contract when, in fact, a broader, more aggressive role was called for, particularly in light of the problems that developed at Los Alamos in the late 1990s.

Although the University was slow to take action to correct these failures, once it became engaged its actions were broad, forceful, and effective. It is difficult to see how any organization could have done more to deal with the problem than the University of California has since December 2002. Further, the University brings substantial value to the mission of Los Alamos, in science, recruiting, retention and fostering a culture of scientific skepticism and peer review. Therefore, given the extraordinary disruption that would flow from an immediate termination, we do not believe contract termination is in the best interests of the national security missions conducted at Los Alamos.



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We recommend:

- That the University of California continue to manage Los Alamos through the end of the current contract in September 2005.
- That you direct the NNSA Administrator to examine the utility of a contract modification institutionalizing some of the reforms made by the University over the last few months.
- That the Department announce its intent to compete the Los Alamos contract when it expires in September 2005.
- That we urge the University of California to compete for the contract in 2005, perhaps in association with another entity with business and project management experience.
- That you direct the NNSA Administrator to begin now to develop appropriate criteria for evaluating a future competition, taking into account the results of the Blue Ribbon Panel when available.
- That you further direct the NNSA Administrator to ensure that any future competition includes provisions for retaining the current Los Alamos workforce following September 2005.
- That you reject in advance any notion of split responsibility for Laboratory operations in which different contractors would perform the science and business operations functions.
- That you direct the NNSA Administrator to devise a mechanism to ensure that, if the University does not continue to operate Los Alamos following the 2005 competition, the pension benefits of all Los Alamos employees on the rolls as of September 30, 2005, or previously retired, are fully protected.
- That in dealing with future competitions, the Department explore ways in which to not only take into account truly outstanding performance but also to encourage contractors who might fall short during a contract term to strive to develop plans to correct problems so that they may compete and succeed.
- That you direct that all current and future contracts be reviewed in order to ensure that performance reviews capture the crosscutting information necessary to form a complete picture of performance.

- That you direct us to continue to monitor progress and subsequent information from either internal or external reviews in order to provide additional recommendations as facts and circumstances develop that warrant additional action.

Attachment

Complete report

**Report by the Deputy Secretary of Energy and the
Acting Administrator of the National Nuclear Security Administration
on the future relationship between Los Alamos National Laboratory
and the University of California
April 26, 2003**

Introduction. In accordance with your direction in your letter of December 24, 2002, we have conducted an examination of the relationship between the University of California and the Los Alamos National Laboratory. Our examination included the following:

- Review of briefings to the University Regents, internal University of California reports, and similar documents between 2001 and the time of the relief of the Los Alamos National Laboratory Director in 2003.
- Review of all relevant Inspector General and Office of Independent Assessment and Oversight reports covering Los Alamos. We paid particular attention to those Inspector General reports covering the period since the problems at Los Alamos surfaced; a list is attached.
- Review of the Appendix O process and material (Appendix O was put in place during contract renewal in 2001 to correct perceived security problems; it is further discussed below).
- Review of testimony given by witnesses to the Subcommittee on Oversight and Investigations of the House Energy and Commerce Committee.
- Interviews with former Vice President for Laboratory Management, John McTague, former National Nuclear Security Administration (NNSA) Administrator, General John A. Gordon, and the Los Alamos Site Manager, Ralph Erickson.
- A daylong meeting with senior Los Alamos and University officials at Los Alamos, including a separate meeting with Federal site office management officials who have contract oversight responsibilities.
- A number of meetings with Senior Vice President for University Affairs Dr. Bruce Darling, who also serves as Interim Vice President for Laboratory Management, along with phone calls with Dr. Darling several times a week.
- A similar set of meetings and phone calls with Interim Laboratory Director, Dr. George "Pete" Nanos, and his senior staff.
- Conversations with various Regents of the University of California to review our conclusions.

This memorandum reports the results of our assessment and our recommendations for the future Los Alamos – University of California relationship.

Background. The University of California has operated the Los Alamos National Laboratory since 1943 under contract with the Department of Energy and its predecessors. The contract has routinely been extended without competition, most recently in January 2001 just 2 days before the Bush Administration took office. The

University also operates Lawrence Livermore National Laboratory under an identical, but separate contract, as well as the Lawrence Berkeley National Laboratory. The University has traditionally regarded its management of the laboratories as a public service to the nation. As one indication of this, the University has taken the position that its operation of the laboratories should be revenue neutral. That is, the University retains no fee for operating the laboratories and seeks to use no University of California funding to do so. The fee paid by the Government is returned to the laboratories for additional laboratory-directed research and development, after deducting the costs of that portion of the University Office of the President involved with overseeing the laboratories, paying expenses not otherwise reimbursable, and establishing a reserve to cover significant losses.

During the late 1990's two major concerns arose with Los Alamos National Laboratory, both involving security. The first was the case of Dr. Wen Ho Lee, a Los Alamos scientist who was ultimately convicted of mishandling classified material. This case raised extensive questions about the adequacy of security at the Laboratory. These concerns were reinforced in May 2000 when two hard drives containing Restricted Data could not be located for an extended period of time. The hard drives were ultimately located in a secure area within Los Alamos, but the Laboratory's inability to locate them, coming on top of the concern raised by the Wen Ho Lee case, further exacerbated security concerns.

Security concerns were among the reasons that Congress created the National Nuclear Security Administration. Despite this, no senior Los Alamos manager was terminated, reassigned, or demoted as a result of either of these incidents, although some formal reprimands were issued and two lower-level employees were reassigned.

Notwithstanding these security concerns, the University's contract to manage Los Alamos was extended non-competitively in January 2001. The current contract expires on September 30, 2005. In extending the contract, the Department imposed a number of requirements to correct the perceived problems with the management of Los Alamos. The new requirements were codified in a separate appendix to the Los Alamos contract called Appendix O. An identical appendix was included in the contract for Lawrence Livermore National Laboratory.

Appendix O committed the University to establish a position of Vice President for Laboratory Management and made the first incumbent of that position subject to departmental approval. It also committed the University to take a series of discrete steps to improve management. To enforce these commitments, Appendix O established a series of quarterly reviews between the Department, the University, Los Alamos, and Livermore. By its own terms, Appendix O expired on September 30, 2002. At that time, the NNSA, on behalf of the Department, concluded that all the requirements of the Appendix had been met. None of these requirements related to business services.

The precipitating incidents. Beginning in the summer of 2002, a series of problems with business services at Los Alamos came to light. The problems themselves originated

several months earlier, but were not widely recognized outside the Laboratory until the summer of 2002. These problems included:

- Questions concerning the effectiveness of controls over Government purchase cards (credit cards). Several laboratory employees (all now terminated except one, where disciplinary action is pending) used a laboratory-issued purchase card to make fraudulent purchases, including an attempt to purchase an automobile. Actual loss to the Government was only about \$3000, but the massive audit conducted by the University in response to the issue revealed an additional \$195,246 worth of purchases where documentation was inadequate or missing (some documentation was destroyed in the Cerro Grande fire) along with \$125,000 in employee recognition awards that exceed the approved DOE threshold. Although no additional cases of fraud were uncovered, the University chose to reimburse the Government the entire sum of both questionable items for a total of about \$320,000.
- A scheme by two employees (both now terminated) apparently used doctored purchase orders to order material for their personal use. The incident is still under investigation by the FBI. The amount of the apparent theft exceeded \$300,000, but all but about \$50,000 has been recovered. The University has reimbursed the Government for the loss.
- Questions concerning the adequacy of property controls. Newspaper revelations indicated that the laboratory was unable to account for \$1.3 million worth of controlled property, including such pilferable items as computers. Although the most spectacular allegations (a missing fork lift, for example) were ultimately resolved, substantial amounts of property remained un-located.
- The Laboratory's action in firing two investigators within a few days of those same investigators raising concerns with the Inspector General. You, the University and the Inspector General have all stated that the Laboratory's action in firing the inspectors was 'incomprehensible.' We share that assessment. While the Inspector General's investigation did not substantiate the allegation that Laboratory management deliberately hid criminal activity, this incident (in which the University played no role) demonstrated the degree to which the Laboratory's management was out of touch and ineffective.

Taken individually, it is possible that none of these incidents would call into question the adequacy of Laboratory management. Taken in the aggregate, however, they revealed systemic weaknesses in business practices at Los Alamos. These weaknesses were further confirmed by additional Inspector General audits in unrelated areas, including:

- An audit of firearms control that revealed significant weaknesses in procedures and accountability, although all firearms were ultimately located.

- An interim audit that determined that control over laptop computers was inadequate. Computers were not properly controlled, not adequately safeguarded against theft, and not always acquired in accordance with approved procedures. Computers that could not be located were written off without a formal inquiry and theft of laptop computers was not always reported to the appropriate office.
- An audit of the allowability of incurred costs that assessed that just over \$14 million (about 0.3 percent out of the total of \$5.4 billion examined) was improperly charged to the government under existing rules. The three areas of concern were travel and conference costs not adequately documented, provision of business meals, and an audit function evaluated as inadequate.¹

The fact that there was not greater fraud and theft at Los Alamos is a tribute to the character of the vast majority of men and women working there, and not to the efficacy of the management systems in place. The actual loss to the Government could have been far greater and the business practices in place in 2002 would not have been able to identify and therefore prevent such a loss.

There is no evidence that the lax approach to business processes and business issues extended to science or security. The fear that such practices might spread, however, was—justifiably—a primary motivation for insisting that the University of California move promptly to correct the problems.

University of California response. The University was relatively slow to respond to the public allegations of business practices problems. University response was initially limited to providing assistance as requested by the Laboratory Director and did not include any action to ensure that the Laboratory Director was taking sufficient steps to examine the problem. The University engagement began in earnest in mid-November following the commissioning of an Inspector General investigation (requested by the Laboratory) and a series of increasingly embarrassing press accounts. University engagement increased still further following the intervention of the Secretary of Energy in November and December 2002.

Once the University became engaged its actions were broad, forceful, and effective. The University made significant personnel changes in Laboratory management, including accepting the resignation of the Laboratory Director, terminating the Principal Deputy Director, and transferring, downgrading, or terminating 16 other officials including the Chief Financial Officer, Laboratory Auditor, Security Office Director, and the heads of the procurement and purchase card programs. Given the size of the Los Alamos management team, these represent sweeping changes.

¹ Although the Laboratory has generally agreed with all the findings of outside audits, it disagrees with this specific audit, contending that virtually all the costs should be allowable. Final determination of allowability will be made by the Contracting Officer in accordance with established DOE procedures.

The University mobilized substantial auditing resources to examine issues in depth. It used teams of extremely senior officials to investigate the issues. University senior officials (for example the University Auditor) essentially devoted full time to Los Alamos issues. The University permanently subordinated the Laboratory auditor to the University Auditor and temporarily subordinated all Laboratory business functions to the University Vice President for Financial Management. It directed a series of external reviews by Ernst and Young, PriceWaterhouseCoopers, and a team headed by a former DOE Inspector General. These were major reviews; the Ernst and Young review, for example, involved 20 people at the Laboratory. It is difficult to see how any organization could have done more to deal with the problem than the University of California did after about mid- December 2002. In particular, we have been impressed with the performance to date of both the Interim Vice President for Laboratory Management, Dr. Bruce Darling, and the Interim Los Alamos Director, Dr. George “Pete” Nanos.

The University’s steps were not limited to Los Alamos. Although we did not investigate actions at other laboratories, the University appears to have been vigorous in taking the lessons from Los Alamos and applying them to the Lawrence Livermore and Lawrence Berkeley National Laboratories. The University required these Laboratories, as well as the University auditor, to examine their own internal procedures to ensure similar problems did not arise elsewhere. The University also used senior officials at these Laboratories to assist at Los Alamos.

The University and the new Laboratory leadership are viewing the necessary improvements broadly, not narrowly. Although the specific issues that came to light in late 2002 dealt with business practices, the University and the Interim Laboratory Director are taking the opportunity to look at Laboratory practices in all areas, including project, program, environmental, procurement, and nuclear facilities management. While the responsibility for implementing this broad approach belongs to the Interim Director, the University selected that Director and has been strongly supportive of examining all areas of Los Alamos management. This increases the chance that the changes being made will endure.

Finally, the University is in the process of putting in place a new governance model involving strengthened internal management and oversight and a strong external governing Board with members having strong backgrounds in industry, defense and science. The new Board will have some of the responsibilities of the Regents and will be able to hold both the University administration and Laboratory Management accountable. We are not yet able to evaluate the efficacy of this new governance model, but it is a clear indication that the University sees its task not simply as implementation of a temporary “get well” program but as a transformation of its model of oversight.

The cause of the problems. Our review suggests that there are multiple causes of the failure of business systems at Los Alamos:

- **Prior to November 2002, the University’s supervision of Los Alamos was ineffective in the area of business processes.** University supervision was almost

entirely focused on other areas including science, security, environment, and project management. Briefings to the Regents never discussed business practices nor was the subject a focus of the former Vice President for Laboratory Management. Internal documentation relating to University oversight in this period is silent on business practices.

- **The Department of Energy and the NNSA's direct Federal oversight was narrowly focused on specific performance measures called out in the contract, rather than on overall effectiveness.** Appendix O was focused on issues other than business services. Most discussions were in areas of safety or of having Los Alamos and Livermore work together. NNSA's own supervision focused on areas such as safety and security, rather than business services and tended to assess performance within "stovepipes," while many of the actual problems were failures of appropriate connections between stovepipes. A division of responsibility between the Los Alamos Site Office and the former Albuquerque Operations Office further weakened NNSA oversight, with oversight of business practices coming almost exclusively from Albuquerque.²
- **In hindsight, warning signs may have been ignored.** Following the Dr. Wen Ho Lee and hard drive incidents, neither the Laboratory, the University, NNSA, nor the Department examined whether broader problems existed at Los Alamos. For years, there has been general acknowledgement of a "Los Alamos way" that was unique and that devalued business practices. Evaluations of Los Alamos in recent years always showed it slightly inferior in overall performance to the other two weapons laboratories, but never by enough to cause strong concern. Because there was no precipitating event, no one at any level acted on these indicators.
- **Cultural problems beyond the control of the University or the Department played an important role.** The Los Alamos culture exalted science and devalued business practices. Changing this culture will be the most difficult long-term challenge facing the Laboratory no matter who manages it.

The value of the University. In evaluating our options, it is important to recognize that the University brings substantial value to the mission of Los Alamos, in both obvious and less obvious ways. Stockpile Stewardship and other Los Alamos missions depend on attracting and retaining world-class scientific talent. The academic prestige of association with a world-class university is of clear benefit in both recruiting and retention.³ In addition, there are formal agreements for scientific cooperation with four of the component campuses of the University of California. These areas of cooperative research directly advance the scientific mission of the Laboratory.

² The NNSA reorganization implemented in December 2002 is designed to centralize responsibility to the Site Manager and thus avoid this fragmentary oversight in the future.

³ At least some prospective employees at both Los Alamos and Livermore in recent months have stated that they were uninterested in affiliating with a national laboratory that is not connected with the University. We lack data on how extensive this belief is.

Finally, an important, little-noted benefit of the University is to foster a culture of scientific skepticism and peer review. This attitude, both within the Laboratory and between Los Alamos and Lawrence Livermore National Laboratories, is absolutely crucial to the success of the Stockpile Stewardship Program and to the ability to certify the stockpile. A senior laboratory official at Los Alamos has told us, for example, that the culture of peer review is the only thing that allowed the successful dual revalidation of the W76 warhead conducted a few years ago.

In addition to the actual value that the University brings, an important consideration is the widespread perception among Laboratory employees at both Los Alamos and Lawrence Livermore National Laboratories that the University association is critical to the mission of the Laboratory. Examples of this perception abound and have been a constant theme of our discussions with laboratory employees. We received petitions from 2,500 Los Alamos employees and 3,000 Livermore employees stressing the value of the University association. We received a similar, separate communication from the Los Alamos Fellows, those senior scientists at Los Alamos not part of management. We have reviewed public statements by distinguished figures such as Edward Teller, arguably the most famous living nuclear weapons designer. Even if we disagreed with these assertions of the University's value (which we do not), we need to take account of the widespread perception among the people who actually carry out the important national security mission of the Laboratory that the University association is critical to that mission.

At the same time, the national security missions carried out at Los Alamos require the total confidence of Congress and the public as well as of Los Alamos employees. An erosion of that public trust undermines not only the University but our national security as well. Our recommendations are, therefore, premised on a view that ensuring public confidence is merited is crucial for our country, the University and Los Alamos.

Problems with immediate termination. We are aware of forceful calls that the University contract with Los Alamos be terminated immediately. While the University can be faulted for having allowed the problems to develop, we believe that immediate termination would undermine the national security mission at the lab without measurably addressing the problems that Los Alamos faces today. Further, the Department, and since its creation, the NNSA, share responsibility for lax oversight of business practices. In our view, immediate termination is undesirable for several reasons. Such a step would be highly disruptive to the things that are going well at Los Alamos, especially science. It would also hamper the implementation of the internal reforms the University has put in place. Immediate termination would lose the very real benefits of the University association and, because of this, would be devastating to morale.⁴ Finally, any decision for immediate termination would almost certainly have a counterproductive effect on other contractors facing similar problems in the future. If this vigorous get well program

⁴ The prospect of termination may already have had an adverse effect. As of April 8, 266 Los Alamos employees (68 with critical skills) have applied for retirement. In contrast, there were only 177 retirements during all of 2002. Retirement requests at Livermore are currently running at roughly twice the 2002 rate.

put in place by the University leads only to termination, no future contractor will have any incentive to put this much of an effort into remediation of major problems.

Recommendations. Based on the above, we recommend:

- **That the University of California continue to manage Los Alamos through the end of the current contract in September 2005.** The vigorous action the University is taking to correct the problems uncovered at Los Alamos, the significant value the University brings in the area of science, and the significant disruption to the mission of the Laboratory and the morale of the employees from early termination all make retaining the University through the end of the current contract the most appropriate course. Termination of the contract would not improve the management of Los Alamos in the near-term; the University appears to be fully engaged in an effective and comprehensive program.
- **That you direct the NNSA Administrator to examine the utility of a contract modification institutionalizing some of the reforms made by the University.** If the University continues to operate Los Alamos through 2005, it will be important to ensure that the current momentum for improvement continues. Some institutionalization of the reforms may assist in this area. We believe that discussions between Los Alamos, the NNSA, Los Alamos Site Office, and the University are necessary before determining exactly what changes require codification.
- **That the Department announce its intent to compete the Los Alamos contract when it expires in September 2005.** Given the Department's and the Administration's strong preference for competition, and the widespread nature of the problems uncovered at Los Alamos, it is difficult to argue for any other course of action. Because the question of competition for National Laboratories is the subject of your recently chartered Blue Ribbon Panel, the mechanics of implementing this decision should take into account the results of the Panel's report.⁵
- **That we urge the University of California to compete for the contract in 2005, perhaps in association with another entity with business and project management experience.** The University has brought immense benefits to the Laboratory and the country over the past 60 years. It is important to note that a decision to compete is not a repudiation of the University, but simply a recognition that the University's performance in the area of business management did not rise to the exceptionally high standards required to override the presumption of competition in Department orders.

⁵ The Blue Ribbon Panel, formally the "Blue Ribbon Commission on Use of Competitive Procedures at the Department of Energy Laboratories," was established on January 3, 2003 as a subsidiary body to the Secretary of Energy Advisory Board. It is tasked with examining the Department's policy on competition for management of national laboratories and is expected to make its report by July 2003.

- **That you direct the NNSA Administrator to begin now to develop appropriate criteria for evaluating a future competition, taking into account the results of the Blue Ribbon Panel when available.** The results of the competition in 2005 should preserve the many advantages offered by a world-class academic institution while also ensuring continuation of the reforms now being initiated and strengthening business functions. Devising the proper criteria to achieve these results while avoiding unforeseen consequences will be complicated and should begin at once.
- **That you further direct the NNSA Administrator to ensure that any future competition includes provisions for retaining the current Los Alamos workforce following September 2005.** The staff of Los Alamos is a national treasure that must be preserved. It is important to establish now that a competition in 2005 will not result in a changed workforce. Otherwise we will face both a serious morale problem and the prospects of a significant exodus of staff in the mistaken belief that their jobs are at risk.
- **That you reject in advance any notion of split responsibility for Laboratory operations in which different contractors would perform the science and business operations functions.** Some have argued for having the science and business portions of the Laboratory supervised by different contractors. We urge you to reject this approach. While the University might well benefit from a partnership with industry, the Laboratory Director should not report to two entities. Further, the Interim Laboratory Director believes that a major part of the problem at Los Alamos is fragmentation between the science and business communities within the Laboratory. A dual reporting approach would make this problem worse, not better.
- **That you direct the NNSA Administrator to devise a mechanism to ensure that, if the University does not continue to operate Los Alamos following the 2005 competition, that the pension benefits of all Los Alamos employees on the rolls as of September 30, 2005, or previously retired, are fully protected.** While the Los Alamos employees who have contacted us are generally concerned about the impact on science and mission of losing the association with the University of California, many are also concerned with their benefits under the University's pension system. It is important to reassure employees, that, regardless of the outcome of the future competition, those benefits will be protected. Otherwise, we could face a significant challenge to morale and, potentially, a devastating exodus of the most experienced employees.
- **That you direct us to continue to monitor progress and subsequent information from either internal or external reviews in order to provide additional recommendations as facts and circumstances develop that warrant additional action.**

Lawrence Livermore National Laboratory. The University of California also manages the Lawrence Livermore National Laboratory under a separate, but essentially identical, contract as the contract with Los Alamos. Our review did not explicitly cover Lawrence Livermore National Laboratory and we believe that there is no need to make even a preliminary decision on whether to extend or compete the Lawrence Livermore contract when it expires in September 2005. Such a decision can clearly be deferred and can await, among other things, the results of the recently established Blue Ribbon Panel. There is no legal reason why the Department could not choose to compete the Los Alamos contract and extend the Lawrence Livermore contract, and the Secretary should continue to hold that option open.

Additional issues. An important aspect of the problems of Los Alamos has been the potential loss of Congressional and public trust resulting from the revelations of the serious management deficiencies at the Laboratory. This problem was exacerbated by two factors:

- The current Government rules on property accountability significantly overstate the value of the unaccounted for property. Government rules require that property be carried at its original cost. Thus, for example, an obsolete computer that would not fetch \$50 at a yard sale is carried at its original purchase value of several thousand dollars. A 35 year-old forklift, which any business would have written off as an asset through depreciation years ago, is carried at its original cost. As a result, the apparent dollar value of un-located property overstated the actual magnitude of the problem and diverted the attention from the more systemic problems. The Secretary should direct that the Department seek authority to revise government property accounting rules to be more consistent with those used in the private sector.
- The grading system at Los Alamos, adapted from other Government systems, is based on a scale of Outstanding, Excellent, Good, Satisfactory, and Unsatisfactory. This scale suffers from what might be called “rhetorical grade inflation.” Thus, a mark of “Excellent” conveys a sense of exceptional performance, when, in fact, it is used for routine performance. The Secretary should direct that in future contracts the NNSA Administrator use a descriptive system that will more accurately reflect the intent of a particular grade.

The grading problem is simply one example of a broader set of concerns raised over the issues relating to competition of Federally Funded Research and Development Centers such as Los Alamos. Although it was not specifically established with any one facility in mind, the Blue Ribbon Panel discussed above was created in part because it became clear that any decision to compete was increasingly perceived as a repudiation of an incumbent contractor. This is a view that has undoubtedly grown over many decades, but it has had unfortunate consequences. Incumbent contractors view their choices as being either a series of contract extensions, or loss of the contract. As a result, incumbent contractors often assert that they will be unwilling to participate in a competition.⁶ We recommend

⁶ The wide spread perception that no incumbent DOE contractor has ever prevailed in a competition is one manifestation of this attitude. The perception is wrong. There are at least four

that the Department explore ways in which to not only take into account truly outstanding performance but also to encourage contractors who might fall short during a contract term to strive to develop plans to correct problems so that they may compete and succeed.

An equally important concern is the overall “stove piped” nature of the NNSA evaluation system in place at Los Alamos (and elsewhere). The contract entered into in January 2001 established a performance review process that considered individual areas in isolation. By failing to consider relationships between different processes, it failed to detect overall systemic problems and thus failed to capture the type of management failures that we are addressing in this memorandum. As a result, the performance review process assigned an “Excellent” rating to the Laboratory management almost simultaneously with the Secretary of Energy stating publicly that there was a “systemic management failure.” We therefore recommend that all current and future contracts be reviewed in order to ensure that performance reviews capture the crosscutting information necessary to form a complete picture of performance.⁷

Concluding observation. We believe it is important to recognize that the overwhelming majority of Los Alamos employees—in all areas, including business services—are honest, dedicated, competent, and hard working. Ultimately, the value of the Laboratory lies not in expensive technology, but in people. The failures at Los Alamos are real, but they are the failures of a few. As we implement changes, we urge that all levels of the Department emphasize this fact at every opportunity.

instances where incumbents have retained contracts following competition, including one Federally Funded Research and Development Center (National Renewable Energy Laboratory). Still, the perception exists and needs to be dispelled.

⁷ Recent changes in NNSA evaluation procedures are designed to ensure a focus on broad management issues. It is important that these changes be pursued vigorously.

Inspector General Reports consulted

Completed reports

<i>Report Number</i>	<i>Title</i>	<i>Date Issued</i>
OAS-L-03-06	Recruitment and Retention at the Los Alamos and Lawrence Livermore National Laboratories	11/27/2002
S02IS013	Inspection of 2001 Safeguards and Security Survey of Los Alamos National Laboratory	01/12/2003
IG-0584	Special Inquiry: Operations at Los Alamos National Laboratory	01/28/2003
IG-0587	Inspection of Firearms Internal Controls at Los Alamos National Laboratory	02/21/2003
IG-0591	Allegations Concerning the Reporting of a Radiological Incident at LANL	03/20/2003
IG-0596	University of California's Costs Claimed And Related Internal Controls for Operation of Los Alamos National Laboratory	04/16/2003
IG-0597	Inspection of Internal Controls Over Personal Computers at Los Alamos National Laboratory (Interim Report)	04/24/2003

Reports not yet made public but where we have reviewed draft findings

The Dual Axis Radiographic Hydrodynamic Test Facility (Draft Report)

Ongoing reports to which we have not yet had access⁸

LANL's Nuclear Materials Stabilization Program

Various Law Enforcement Sensitive reports on criminal activity

⁸ We have no reason to believe that any of the ongoing investigations and audits would change the recommendations of this report.